

MIKE KREIDLER  
STATE INSURANCE COMMISSIONER

## STATE OF WASHINGTON

Phone (360) 725-7000  
www.insurance.wa.gov



OFFICE OF  
INSURANCE COMMISSIONER

IN THE MATTER OF

AMERICAN RELIABLE INSURANCE  
COMPANY,

Authorized Insurer.

ORDER NO. 14-0012

CONSENT ORDER LEVYING A FINE

The Insurance Commissioner of the State of Washington, pursuant to the authority set forth in RCW 48.02.080 and RCW 48.05.185, and having reviewed the official records and files of the Office of the Insurance Commissioner ("OIC"), makes the following:

**FINDINGS OF FACT:**

1. American Reliable Insurance Company ("American Reliable" or "the Company") is an authorized insurer admitted in 1982. It sells casualty, disability, marine, ocean marine, property, surety, and vehicle insurance.
2. American Reliable filed a rate filing (Tracker ID 64664) that was approved on August 23, 2005. The Washington Insurance Examining Bureau ("WIEB") completed an examination of the Company in July 2012 and reported its findings to the OIC. As a result of the WIEB findings, the OIC's Market Analysis conducted a Level 2 Market Analysis and referred the file to OIC Market Conduct for continuum action.
3. The Company provided policy information as requested by the Market Continuum staff for all policies and renewals from July 1, 2012 to November 21, 2012. A total of 48 policies were identified. Market Continuum conducted a desk examination of 30 randomly-selected policies, which confirmed that the issues discovered by the WIEB had not been fully corrected. Policies continued to be issued with incorrect use of fire protection class codes and incorrect rating factors were applied. The desk examination also revealed that the use of incorrect rating schedules (IRPM modifications) continued.
4. A total of 30 farmowners policies were reviewed. One of the policies was actually a cancellation, resulting in only 29 policies to be reviewed. Sixteen (16) policies deviated from the filed and approved rate filing (10 were self-reported by the Company). Total premiums for these policies were not determined, but the high percentage of policies with errors is an indication that over half of the Company's policies likely

contain rating errors. Five (5) policies were rated applying incorrect factors, eleven (11) policies were rated using an incorrect IRPM schedule, and two (2) policies were rated using incorrect Fire Protection Class codes.

5. The Company was not only timely in their responses and took the time to review the policies for errors prior to sending the samples to the OIC, it is also apparent the Company attempted to take appropriate actions to correct violations found during the WIEB examination. The Company has also taken a pro-active approach to issues regarding IRPM schedules as identified during the continuum action. Three (3) farmers were overcharged as a result of the errors, and a total of \$1,098, including 8% interest, was refunded.

#### **CONCLUSIONS OF LAW:**

1. By making or issuing an insurance contract or policy not in accordance with its rate filing then in effect, American Reliable violated RCW 48.19.040(6), or in the alternative, RCW 48.19.040(1).
2. RCW 48.19.430 states that any person violating any provision of this chapter shall be subject to a penalty of not more than fifty dollars for each such violation, but if such violation is found to be willful a penalty of not more than five hundred dollars for each such violation may be imposed. Such penalties may be in addition to any other penalty provided by law.
3. RCW 48.05.185 permits the Commissioner to impose a fine of up to \$10,000 for violation of the insurance code.

#### **CONSENT TO ORDER:**

American Reliable, acknowledging its duty to comply fully with the applicable laws of the State of Washington, consents to the following in consideration of its desire to resolve this matter without further administrative or judicial proceedings. The Insurance Commissioner consents to settle the matter in consideration of the Company's payment of a fine and upon the Company fully carrying out their obligations under the Compliance Plan attached hereto as Exhibit A and such terms and conditions as are set forth below.

1. American Reliable consents to the entry of this Order, waives any and all hearing rights, and further administrative or judicial challenges to this Consent Order.

2. By agreement of the parties, the Insurance Commissioner will impose a fine of \$30,000.00 (Thirty Thousand Dollars) and suspend \$20,000.00 (Twenty Thousand Dollars) of that, on the conditions that:

a. Within thirty days of the entry of this Order, American Reliable pays \$10,000.00 (Ten Thousand Dollars).

b. American Reliable commits no further violations of the statutes that are the subject of this Order for a period of two years from the date this Order is entered.

c. American Reliable understands and agrees that any future failure to comply with the statutes that are the subject of this Order constitutes grounds for further penalties, which may be imposed in direct response to further violation, in addition to the imposition of the suspended portion of this fine.

d. The suspended portion of this fine will be imposed at the sole discretion of the Insurance Commissioner according to the conditions as set forth above, without any right to hearing, appeal, or advance notice.

3. American Reliable's failure to timely pay this fine and to adhere to the conditions shall constitute grounds for revocation of American Reliable's Certificate of Authority, and shall result in the recovery of both the suspended and unsuspended amounts of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

EXECUTED this 7<sup>th</sup> day of February, 2014.

AMERICAN RELIABLE INSURANCE COMPANY

By: Valley M. Owens

Printed Name: Valley M. Owens

Typed Corporate Title: Vice President

## ORDER

Pursuant to the foregoing Findings of Fact, Conclusions of Law, and Consent to Order, the Insurance Commissioner hereby orders as follows:

1. American Reliable Insurance Company shall pay a fine in the amount of \$30,000.00 (Thirty Thousand Dollars), of which amount the sum of \$20,000.00 (Twenty Thousand Dollars) is suspended, on the condition that the Company fully comply with the laws of the State of Washington which are the subject of this Order for the next two years and upon the further condition that the Company fully carry out its obligations under the Compliance Plan attached hereto as Exhibit A.

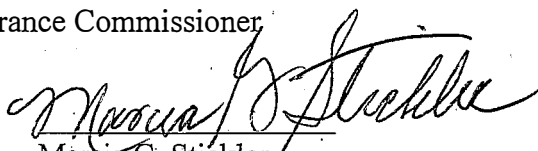
2. The Company shall comply with and carry out the Compliance Plan set forth in Exhibit A hereto, which Compliance Plan is hereby incorporated into this Order by reference as though fully set forth herein; and

3. The Company's failure to pay the fine within the time limit set forth above shall result in the revocation of the Company's Certificate of Authority and in the recovery of both the suspended and unsuspended amounts of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED AT TUMWATER, WASHINGTON, this 14<sup>th</sup> day of February, 2014.

MIKE KREIDLER  
Insurance Commissioner

By

  
Marcia G. Stickler  
OIC Staff Attorney  
Legal Affairs Division

## EXHIBIT A

### COMPLIANCE PLAN

#### Introduction

This attachment outlines the plan to address the findings in OIC Order No. 14-0012. The plan is intended to ensure that the business conducted by American Reliable Insurance Company ("American Reliable" or "the Company") is in compliance with Washington Insurance Laws and Regulations. The plan encompasses two component parts: corrective actions and internal audits with reports to the OIC.

#### Effective Date of Plan

This plan will become effective upon execution of Order No. 14-0012.

#### Part 1. Administrative Actions:

Within 30 days of the date of entry of Consent Order No. 14-0012, American Reliable will provide a Corrective Action Plan. This Corrective Action Plan will include all steps planned and/or taken to resolve the violations in Order No. 14-0012. This description will include:

- a. The type of action taken (i.e., changes to computer systems or tracking and reporting procedures, training);
- b. What personnel are/were involved in the corrective action;
- c. Relevant dates; and
- d. Copies of any material provided as part of corrective action, i.e. memoranda, written policies, educational materials, etc.

This information will be sent to:

Marcia G. Stickler  
Staff Attorney  
Insurance 5000 Building  
P.O. Box 40255  
Olympia, WA 98504-0255  
Email: [MarciaS@oic.wa.gov](mailto:MarciaS@oic.wa.gov)  
Fax: (360)586-0152

Provision of this information via fax or electronic means is acceptable.

Within 30 days following receipt of American Reliable's Corrective Action Plan, OIC will respond to the plan. This response will be either approval, in which case the plan is to be implemented immediately, or a detailed statement of the areas in which the plan requires changes to be acceptable, in which case American Reliable will have 15 days to respond. This process

will continue until the Corrective Action Plan has been approved by OIC. Once the Plan is approved by OIC, it will be implemented immediately.

## Part 2. Internal Audits

In order to assess the effects of the Corrective Action Plan, American Reliable will perform at least four semi-annual audits to ensure that no further violations have occurred of the statutes and regulations that are the basis of Order No. 14-0012. The audits will evaluate whether all corrective actions set forth in the Corrective Action Plan are complete, and whether the corrective action has been successful in preventing any further violations of the statutes and regulations that are the basis for the above-referenced Order. The audits will occur during a two-year period beginning on the date of entry of Order No. 14-0012. The audit structure will be designed by American Reliable and will be presented to OIC for approval upon the same schedule set forth above for the Corrective Action Plan.

Therefore, the proposed audit structure will be due to OIC within 60 days of the date of entry of Consent Order No. 14-0012. Within 30 days following receipt of the proposed audit structure, OIC will respond to it. This response will be either approval, in which case no further action is necessary, or a detailed statement of the areas in which the audit structure requires changes to be acceptable, in which case the Company will have 15 days to respond. This process will continue until the audit structure has been approved by OIC.

The audit structure to be designed by American Reliable and approved by OIC will include audit summaries. Audit summaries are reports from American Reliable to OIC of the results of the semi-annual internal audits. The form to be used for the audit summaries will be designed by the Company and approved by OIC.

The audit structure, including summaries, will be designed to evaluate whether the Corrective Action Plan has been successful in preventing any further violations of the statute that is the basis for the above-referenced Order. The audit summaries will be designed to demonstrate whether, during the audit period, American Reliable has violated the statute that is the basis for the Order. As an example, it may include a review of any new rates being used by the Company since the last audit, to determine whether the rates used have been filed and approved by the OIC.

For each exception (violation) found as a result of the audit process, American Reliable will include an explanation of the cause(s) and the remedial action taken. The Company will undertake appropriate remedial action acceptable to OIC for each violation found within any audit.

The first audit period will begin on the date of entry of Order No. 14-0012. Each audit period is 6 months. The Company will provide each audit summary to OIC no later than 30 calendar days after the end of the time period audited.

The audit summaries will be sent to:

Christine Tribe  
Paralegal – Legal Affairs  
Insurance 5000 Building  
P.O. Box 40255  
Olympia, WA 98504-0255  
ChrisT@OIC.WA.gov  
Fax: (360)586-0152

Provision of the audit summaries via fax or electronic means is acceptable.